

# **CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD**

Market Development Committee  
August 7, 1997

## **AGENDA ITEM 6**

**ITEM:** CONSIDERATION OF A REVISED RECYCLING MARKET DEVELOPMENT  
REVOLVING LOAN PROGRAM PRIORITY RATING SYSTEM

### **I. SUMMARY**

According to Recycling Market Development Revolving Loan Program (Program) regulations, the Board must annually determine program priorities. This item considers input and makes recommendations for adoption by the Board of a priority rating system for program loans.

### **II. PREVIOUS COMMITTEE ACTION**

Staff included a draft version of the proposed new rating system in the July 9, 1997, Market Development Committee agenda item titled "Consideration of the 1997 Recycling Market Development Zone (RMDZ) Loan Program Eligibility and Priority Criteria." The draft rating system was not intended for Committee consideration at that time.

### **III. OPTIONS FOR THE COMMITTEE**

The Committee may:

1. Recommend, and forward to the Board, adoption of the Loan Program Priority Rating System.
2. Modify staff's recommendation and forward to the Board, adoption of the modified Loan Program Priority Rating System.
3. Provide guidance to staff, instruct staff to revise the item and return to the Committee for consideration.

### **IV. STAFF RECOMMENDATION**

The Committee recommend, and forward to the Board, adoption of the Loan Program Priority Rating System.

## V. ANALYSIS

### Statutory and Regulatory Authority:

Statutory authority for the program is contained in Public Resource Code (PRC) 42010. Specifically, PRC 42010(d)(3) states: "The board shall approve only those loan applications which demonstrate the applicant's ability to repay the loan. The highest priority for funding shall be given to projects which demonstrate that the project will increase the market demand for recycling the project's type of postconsumer waste material."

Program regulations are contained in Title 14, Division 7, Chapter 4, Sections 17930-17936. Revised program regulations were approved by the Board on May 28, 1997, and are awaiting approval from the Office of Administrative Law (OAL). OAL approval is expected in September, 1997.

Section 17933 of the proposed program regulations indicates that priority consideration shall be given to:

- a. Applicants who demonstrate an ability to repay the loan;
- b. Projects which will increase the demand for recycling the projects type of postconsumer waste material;
- c. Projects that satisfy additional statewide recycling market development objectives (as described in Section 17909); and,
- d. Projects that satisfy additional priorities that are determined by the Board.

The Board approved the 1996 RMDZ Loan Program Objectives on February 27, 1996, and the 1997 RMDZ Loan Program Eligibility and Priority Criteria at its July 23, 1997 meeting.

### Revised Priority Rating System

To comply with the statutes, program regulations, and Board approved objectives, each loan is ranked in accordance with its ability to meet the above-stated objectives. The existing process has been difficult to apply consistently from loan to loan and is quite subjective. As such, staff is proposing a new system rather than modifying the existing system.

The current internal process for scoring a loan is shown in Attachment #2 and is summarized as follows:

The likelihood of each proposed project to increase market demand for postconsumer materials.	50 Points
The impact on markets for the Board's priority materials (mixed paper, high-density polyethylene, mixed plastics and compostable materials).	25 Points
The size, in tons per year, of the proposed project.	10 Points
Classification of the project within the integrated waste management hierarchy.	10 Points
The use of other funds in the proposed project in addition to RMDZ loan funds.	5 Points

The proposed revised scoring system is shown in Attachment #1 and is summarized as follows:

The sustainability of the business increases the likelihood of continuing its market development efforts and achieving the proposed diversion.	40 Points
The project directly increases market demand, or is a source reduction/reuse project.	15 Points
The project uses a priority material as defined in the Board's current Market Development Plan.	15 Points
The project promotes a new technology, or a new application of existing technology.	10 Points
Outside funding in excess of the Program's minimum 50% match requirement.	10 Points
Project diversion in excess of the Program's average for like materials (on a dollar per ton basis).	10 Points

The proposed scoring system, with a total of 100 points possible, is divided into six sections to reflect the priorities identified in statutes, regulations, and by the Board.

### **Explanation of Criteria Sections**

The six criteria sections are explained as follows:

1. Sustainability of the Business (Maximum of 40 points)

This section recognizes that the financial viability (sustainability) of the business is a primary factor in the business' ability to remain a going concern, increases the likelihood of continuing its market development efforts and achieving the proposed diversion. Business sustainability is best measured by the past operating performance of the business. A business with a successful operating history (profitable operations for the prior 3 years) and stable market share will be awarded 40 points (the maximum). A company with less than 3 full years of profitable operating history, but which can demonstrate an established market share will be awarded 20 points. A startup company (less than 3 full years operating history) with no demonstrated market share will be awarded 10 points.

2. Direct Impact on Demand for the Recycled Post-Consumer Material, or a Qualifying Source Reduction Project (Maximum of 15 points)

This section recognizes those source reduction projects which represent the highest level of the waste management hierarchy and those projects which use post-consumer material. Projects which provide a direct increase in the market demand for the recycled post-consumer material or which are a qualifying source reduction/reuse project will be awarded 15 points.

Manufacturing businesses that use post-consumer material directly increase market demand for that material. That direct link is recognized by awarding those manufacturing projects 15 points (the maximum). Intermediate processors do not directly increase demand for a material, but increase the recycled material's available supply. As such, intermediate processors are not awarded points for this criteria.

Since source reduction (and reuse) represent the highest level of the waste management hierarchy, its importance is recognized by awarding 15 points (the maximum).

3. Priority Materials (Maximum 15 Points)

This section awards 15 points to projects that utilize a priority material as defined in the Board's Market Development Plan. Currently, the priority materials are plastics, mixed paper, green waste, and construction and demolition materials.

4. Promotion of a New Technology, or a New Application of an Existing Technology (Maximum of 10 Points)

This section awards 10 points to those projects that use a new technology or a new application of existing technology.

5. Leverage of Other Funds (Maximum 10 Points)

This section considers leverage of program monies from those projects which maximize outside funding. According to PRC 42010(d)(4), the program can lend a maximum of 50% of project costs. Applicants which leverage program monies by providing outside funding are rewarded by awarding additional points. An applicant which provides 60% or more of the project costs from outside sources will receive 5 points. Applicants providing 70% or more of the project costs from outside sources will receive 10 points.

6. Loan Dollar Per Ton Diversion Rate Compared to Funded Loans With the Same Project Material Type (Maximum 10 Points)

This section awards points to those projects which result in diversion per loan dollar greater than the program averages<sup>1</sup>. Projects with a \$/ton of 75% of program averages or less will receive 10 points. Projects with a \$/ton of 75% to 85% of program averages will receive 5 points. Projects with a \$/ton equal to 85% or greater of program averages do not receive any points. Projects involving a new material not previously funded do not receive any points.

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<sup>1</sup> The loan dollars per ton (\$/ton) of a proposed project is divided by the average \$/ton of program funded projects for the same material. This percentage is used to determine whether a project results in greater diversion per loan dollar than program averages. A lower percentage means a greater diversion per dollar than program averages.

### **Rationale for Point Scoring**

Staff believes that the viability of the business is critical to achieving market development and diversion. If a business has been in operation and profitable for three or more years, the likelihood that the business will remain a going concern is high. As such, Section 1 is the highest point category with a maximum of 40 points.

Sections 2 and 3 identify projects that increase market demand or use a priority material, respectively. Increasing market demand is a statutory requirement, while using a priority material is a Board identified criteria for the program. Both categories are considered important to achieving the overall objectives of the program and have been equally weighted at 15 points each.

The remaining three categories represent criteria considered relevant to the selection of loan recipients, especially when loan funds are scarce. These categories are evenly weighted at 10 points each, and may provide the deciding points when factors in categories 1, 2, and 3 are equal. Points are awarded to those projects using a new technology, projects identifying outside financing greater than 60% of the total project costs, and projects using fewer loan dollar per ton diverted as compared to portfolio averages for similar materials, thus maximizing loan funds per project.

### **Comparison of Project Scores Using the Current and Proposed Scoring Systems**

Attachment 3 reflects how several recent funded loans scored under the current and proposed scoring systems.

Existing businesses with proven market share such as John R. Cooper, dba Industrial Tire Service and Phillip Lionudakis dba Lionudakis Wood and Green Waste Recycling, whose projects increase market demand and/or involve priority materials would not see a significant difference between the total points from the two scoring systems.

Other businesses, such as Coast Converters, Inc. could see some slight point score differences mainly due to whether these businesses use new technology, leverage funds above the minimum 50%, or have higher than average loan dollar per ton diversion rates. In particular, Coast Converters, Inc. would score lower under the proposed system since the company is not using new technology, did not leverage funds in excess of 60% of total

project costs, and had a \$/ton much higher than the portfolio average for plastics manufacturers.

Startup businesses like EverGreen Glass, Inc. and MBA Polymers, Inc. would score lower under the proposed system since the proposed system awards additional points to established businesses with demonstrated market share and a higher likelihood of sustained diversion.

It is interesting to note that point scores varied dramatically for such existing businesses with proven market share as Los Angeles Paper Box & Board Mills and Pacific Steel Casting Company. Los Angeles Paper Box & Board Mills scored 28 points higher under the current scoring system than the proposed scoring system.

However, a review of the score assigned under the current system revealed that Los Angeles Paper Box & Board Mills should not have received 25 out of 50 possible points for increasing market demand since the project involved the intermediate process of producing chipboard (not a finished consumer-ready product). As such, the project should have scored 58 points under the current scoring system, which is in line with the proposed scoring system. This example highlights how projects could be misinterpreted using the current system.

Pacific Steel Casting Company would score much higher under the proposed scoring system because the company would receive points for being a profitable business with proven market share, proposing a reuse project, and using a new technology. The current scoring system primarily only recognized the reuse aspect of the project.

Overall, staff believes the proposed scoring system will more accurately identify those projects which will promote the objectives and priority of the program. **However, it does represent a policy decision for the Board regarding the types of projects which are most likely to provide the market development and diversion impact necessary to meet the AB 939 diversion goals. When available program monies are limited, a minimum point threshold for funding may be adopted by the Board. In this situation, the proposed scoring system will favor existing businesses and may result in start-up businesses not being competitive.**

**VI. ATTACHMENTS**

1. Proposed Recycling Market Development Project Scoring Sheet
2. Current Ranking Criteria - RMDZ Loan Program
3. Comparison Ranking Chart

**VII. APPROVALS**

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